

Proposed ASU-Scottsdale Center for New Technology and Innovation

**Presentation to Scottsdale City Council
June 21, 2004**

Economic Vitality Dept.

Purpose

- Provide detailed information on the proposal to create the ASU-Scottsdale Center for New Technology and Innovation on the former Los Arcos site.
- Provide the opportunity for the Council and the public to ask questions and begin the public discussion on the proposal.
- First of 4 public meetings, leading to potential Council action on July 6th/7th.

Proposal

- The City has been approached by ASU about the potential of developing the former Los Arcos Mall site into a major technology, innovation, and creativity center. This site would contain about 1.2 million sq.ft., and could support as many as 4,000 relatively high paying jobs at buildout.

Proposal

- In order to facilitate this development, the City has been asked to purchase the Los Arcos site for \$41.5 million, enter into a long-term lease with the Arizona State University Foundation, and provide up to \$45 million in site related infrastructure. The transaction must be approved by the City no later than 7/9.

Background

- This proposal is in conformance with numerous adopted City policies and goals, including the Economic Element of the General Plan, and the Economic Vitality Strategic Plan:
 - Collaborations: Establishing a stronger relationship with Arizona State University
 - Economic Vitality focus on creating long-term sustainability; high value jobs; targeting technology and research industries
 - Solution to the Los Arcos problem, in order to spur on the revitalization of southern Scts.

Tonight's Presentation

1. Acquisition of the Los Arcos site by the City
2. The terms of the lease between the City and the ASU Foundation
3. City financing
4. Economic/fiscal impact

Key Terms and Conditions of the Proposed Los Arcos Land Purchase by the City

Purchase Agreement

- The ASUF has negotiated a purchase agreement with The Ellman Companies to acquire the former Los Arcos Mall site for \$41.5 million, subject to approval by the Council of the purchase and lease by 7/9, and close of escrow by 7/30. The site will be conveyed to the ASUF free and clear of all existing liens, and conveyed “as-is”.

City Purchase

- The City would therefore purchase the property from the ASUF in a “double-escrow” transaction for \$41.5 million, plus normal closing costs.
- The City was not involved in the purchase negotiations between ASUF and The Ellman Company, and we do not have any information on how the Ellman Co. will be satisfying its liens with Price Legacy Corp.

Key Terms and Conditions of the Proposed Lease between the City and ASUF

1. Parties: City will own the land and enter into a ground lease with the Arizona State University Foundation Scottsdale L.L.C (ASUF)
2. Leased Land: The City will lease to ASUF approximately 37 of the 42 acres of the former Los Arcos Mall site. The City will retain about 2 acres along Scts. Rd. for future development, and 3 acres east of 74th St.
3. Name: “ASU-Scottsdale Center for New Technology and Innovation”

4. Lease Term: 99 year initial lease term, with one 99 year option to extend.
5. Development: At buildout, the Center is anticipated to have approx. 1.2 mil. sq.ft. of space (about 90% office); 3,000-4,000 parking spaces (primarily structured); and open space/public plazas. Total estimated cost to develop will be \$250-300 million.
6. Development Standards: The maximum permitted FAR is 0.8; the maximum permitted height will be 60'.

7. City Approvals: The development will be subject to all applicable City zoning, design review, and permitting processes. There will be no fee waivers or tax abatements by the City for this project.
8. City Expenditures: City will provide site infrastructure up to \$45 million, including demolition, grading, environmental remediation, streets, utilities, parking structures, public art and plazas, etc.
9. ASUF Expenditures: ASUF is responsible for the cost of constructing all the buildings, and for the Center's operation/maintenance.

10. Minimum Development Schedule:

By 7/05: City entitlements complete and site infrastructure construction commenced

By 8/06: Construction must begin on at least 150,000 sq.ft.

By 8/07: Construction must be complete on at least 150,000 sq.ft.

By 8/10: Construction must be complete on at least another 150,000 sq.ft.

Every 3 years thereafter: Construction of at least another 150,000 sq.ft. must be completed

Complete buildout is required by 2028; current projections anticipate buildout by 2015.

11. Nature of Center: At least 51% of the office leaseable area (excluding retail) must be occupied by tenants involved in technology, innovation, or creativity. ASUF is required to maintain this character until at least 1 mil. sq.ft. are built or the year 2025, whichever is first.
12. Remedies for Non-Performance: If ASUF fails to meet the development timetable or fails to maintain the nature of the center, the City has the right to terminate the lease on the remainder of the property.

13. Rent Payments: ASUF will pay to the City, on an annual basis, a payment equal to 50% of the net revenues generated from this project up to a maximum cap of \$81.4 million (allocable share of \$86.5 mil. in land and infrastructure costs, exclusive of 5 acres retained by the City, but not debt service costs). Net revenues are gross revenues minus project related operation/maintenance expenses, building debt service payments, and capital expenditure/tenant improvement reserve funds. The City and ASUF will share equally in any refinance or sale proceeds.

City Financing

Paying for Land

- \$41.5 million land acquisition, plus closing costs, payable prior to 7/30/04
- Proposed approach: Issue \$42 million in Municipal Property Corp. (MPC) bonds, with 30 year amortization. These bonds are backed by the City's excise tax, rather than a specific revenue source. \$42 mil. would cover closing costs and bond issuance costs. The bonds may be issued in the future with a Reimbursement Resolution.
- MPC Board has met and approved this plan

Paying for Infrastructure

- Up to \$45 million for site infrastructure
- Spread out over several years:
 - \$10-15 million within first 1-2 years (for demolition, grading, streets, utilities, etc.) This could be paid for on a “pay-as-you-go” basis out of City reserves (i.e. Economic Investment Fund, capital contingency, etc.)
 - \$30-35 million 4+ years out (for building the structured parking). This could be paid for either through planned CIP funds, or through additional MPC bonds, if necessary.

Total City Obligations

● Land Acquisition:	\$42 million
● Infrastructure:	\$45 million (cap)
● Est. debt service:	<u>\$33-43 million</u>
Total:	\$120-130 million

Projected Economic and Fiscal Impacts

Projected Impacts

- Economic Impacts: The benefits to the community in general
 - Direct: From the project itself
 - Indirect: As a result of the project
- Fiscal Impacts: The tax benefits of the project to the City
 - Direct: From the project itself
 - Indirect: As a result of the project

Economic Impacts - Direct

- Creation of up to 4,000 relatively high paying “knowledge-worker” jobs
- New capital investment of \$250-300 mil.
- Over 30 years, total estimated payroll could be between \$4 – 7 billion, and the total governmental direct revenues could be between \$150 – 300 million, as calculated by 2 local econometric models.

Economic Impacts -- Indirect

- The key indirect economic impacts of this project would primarily be in support of the revitalization of the immediate area – it is expected that this project could induce other reinvestment in the area in both the commercial and residential sectors, increase property values, create spinoff jobs, and increase the total amount of spending in the area.

Fiscal Impacts -- Direct

- Three sources of direct fiscal impacts:
 - Lease revenue from ASUF: up to \$81.4 million (anticipated to take 30-40 years)
 - Lease revenue from City 5 acres: \$5-8 mil. over the first 30 years.
 - Direct tax revenues from the site (sales tax, property tax on buildings, construction sales tax, permits and fees, bed tax, etc.):
 - Over 30 yrs. w/o inflation: \$26-32 million
 - Over 30 yrs. w/ inflation: \$35-42 million

Fiscal Impacts - Indirect

- Staff analysis made 2 assumptions:
 - This would spur on redevelopment of key nearby commercial properties (such as Los Arcos Crossing and the K-Mart site), which would result in a net increase in City tax revenues of about \$43 million over 30 years.
 - This would stabilize the sales and property tax revenues in this area (currently declining), which would result in a net increase in City tax revenue of about \$103 mil. over 30 years.

Fiscal Summary

- Total City obligations: land acquisition, site infrastructure, debt service on the bonds: \$120-130 mil.
- Total New City Revenues:
 - Direct from Project: \$112-131 mil.
 - Indirect from Area: \$146 mil.
 - TOTAL: \$258-277 mil.

Proposed Actions on 7/6 or 7/7

- Authorize the acquisition of the Los Arcos site from the ASUF for \$41.5 mil.
- Approve the terms of the ground lease with ASUF for the ASU-Scottsdale Center for New Technology and Innovation.
- Authorize a Resolution relating to the sale of up to \$42 mil. in MPC bonds

ASUF is requesting that these actions be done with the Emergency Clause

Upcoming Schedule

6/24: Open House at City's Community Design Studio (7506 E. Indian School) from 6:00 – 8:00 pm; residents can ask questions and make written comments

6/28: Special City Council meeting/public hearing. Public oral/written comments.

7/6 or 7/7: Council meeting to formally consider action on the project. Public oral/written comments taken.